ORIGINAL

Arizona Corporation Commission
Docket E-01575A-09-0429
Sulphur Springs Valley Electric Cooperative
2010 REST Implementation Plan

October 29, 2009

Dear Commissioners,

I respectfully request you give the following comment due consideration in the above referenced case. The purpose of my comment is to suggest changes to Sulphur Springs Valley Electric Cooperative's 2010 REST plan that would increase the likelihood the company will be able to meet the prescribed renewable energy goals under the REST rules.

As a building systems engineer, I specialize in the design of high performance homes. It is most disturbing to me that I can no longer recommend renewable energy to my clients in SSVEC's service territory, just when net metering is about to become a reality. Moreover, I have purchased land and completed the preliminary design for an affordable 'net zero' community in Cochise County. However, without assurances that SunWatts incentives will be available when the time comes, I cannot risk further investment in design or marketing, as the core premise of my project hangs on the viability of SSVEC's SunWatts budget over the next couple of years. I find this ironic since my project is exactly the sort of result these incentives were designed to achieve.

Background

Sulphur Springs Valley Electric Cooperative has filed its 2010 Rest Plan with the Arizona Corporation Commission pursuant to A.A.C. R14-2-1813 and R14-2-1814.

Within the 2009 plan year, SSVEC experienced a sharp increase in demand for SunWatts renewable energy incentives due to changes in the federal tax credit and the anticipation of a net metering tariff. This has led to delays in processing rebates as demand for rebates outstripped available funds. The current funding bottleneck is having serious ramifications. Previously approved homeowners who purchased systems in good faith are holding IOU's from the Company, while new SunWatts applicants are unable to get a firm commitment.

More concerning is the long-term viability of the SSVEC REST program. After reviewing SSVEC's proposed REST budgets, I was shocked to see that in 2010 at current funding levels, virtually no funds are available for residential SunWatts rebates (enough for less than one system), and that's before considering any backlog from 2009. After 2010, the residential budget is only on the order of $40,000 to $50,000 per year. The problem is that nearly the entire budget (90% of 2010 projected

revenue) is allocated to administrative costs and debt retirement (CREB Bonds), neither of which provides for any new solar capacity.

The Company proposed two alternate budgets supported by an increase to the REST tariff and caps. However, even these more aggressive budgets don't appear to provide enough funds for the Company to achieve its renewable energy goals under the REST rules.

Proposals

From my perspective, three things must happen to ensure the long term viability of SSVEC's REST program: tariff-based revenues must increase, a MUCH larger percentage of the budget must be allocated to funding new projects, and incentives provided to ratepayers must achieve the maximum benefit in terms of installed capacity vs. incentive payments.

A. Increase revenue

Although I'm not in a position to make specific recommendations regarding the appropriate tariff rate and caps, I would suggest that the Commission look at the reasonableness of the highest proposed budget (Option 3) in terms of whether it 'buys' enough renewable energy to meet the mandated goals over the period covered by the budget. If not, the tariff and/or caps should be increased further.

To the extent that the REST tariff is essentially a tax, having caps makes this a regressive tax, whereby the largest energy users within a given class bear a substantially smaller share of the burden. This seems like the wrong signal to send, given the overall goal for having a REST program.

While I understand that removing the caps might not be possible from a political standpoint, there appears to be ample room to further increase the caps and perhaps even lower the tariff, and still achieve higher overall revenue. This is especially true in the Residential class where, even under Option 3, nearly two-thirds of the customers in that class are predicted to reach the cap.

I have one specific concern with the budget proposals: Although the residential cap for Option 3 is 79% higher than in Option 2 and the average collections for that class is predicted to increase by 64%, the amount allocated to SunWatts Residential Rebates only increases by about 1%!

B. Spend more on new projects

Spending 90% of revenue on administration and debt retirement, as noted previously, is clearly not a tenable path. With the CREB debt being what it is, the only way to improve this situation, aside from increasing revenue, is to reduce administrative costs. I just reviewed a letter to this docket from Mr. David Grieshop where he asks the Commission to consider proposed administration budgets as a percentage of money available for **new** projects. I fully concur with this approach.

C. Seek to maximize renewable energy capacity per dollar invested

SSVEC has proposed reducing the maximum SunWatts rebate from $4.00 to $3.00 per watt installed capacity for residential customers and $2.50 per watt for small Commercial customers. I fully support this reduction. With the recent increase in the Federal tax credit and net metering soon to be available, it is now clear that the economics of installing solar electric have reached a tipping point. Reducing the incentive amount per watt will serve to increase the multiplying affect of the incentive.

I further recommend that residential incentives be limited to 5 kW capacity. A leading installer in SSVEC's service territory recently told me his average system is around 5 kW, with about half of the systems being above that level. Limiting rebates in this manner would serve to increase the number of customers who can benefit from the program, and to the extent that some customers will undoubtedly choose to install larger systems, this will further increase the renewable energy capacity in SSVEC's service area toward meeting REST mandated levels.

Perhaps even more importantly, a 5 kW upper limit for residential systems will encourage energy conservation, which by all accounts is the 'lowest hanging fruit' in terms of reducing our nation's dependency on carbon-based energy. California has codified the strategy of 'efficiency first' in its renewable energy program. This message seems to be totally missing in Arizona's energy policy.

In developing my net-zero community, I'm designing the homes with carefully selected efficiency improvements so they will achieve a 50% reduction vs. the reference IECC (model energy code) at a modest cost, before applying renewable energy. This goal was set for me by the Department of Energy though its Building America program, with which I am a participant. The remaining energy budget can be satisfied with a solar water heater and 5 kW of solar electric, assuming medium efficiency heat pumps. In existing homes, reaching this level of efficiency is obviously more difficult. But if renewable energy incentives are provided without reasonable limits, there is little incentive for homeowners and builders to invest in energy conservation upgrades.

Respectfully,

David Butler

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Cc: Service List